MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2022/2023

PPE0054 – BASIC MACROECONOMICS

(Foundation in Business)

3 OCTOBER 2023
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 9 pages with 2 sections.
2. Attempt **ALL** questions in Section A and Section B. The distribution of the marks for each question is given.
3. Please write all your answers for Section A on the OMR form provided and all answers for Section B in the Answer Booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS [30 MARKS]

Instructions: Answer **ALL** questions in this section. Shade the answers on the **OMR** sheet.

1. Keeping RM50 in currency to be able to buy petrol, money is performing which function?
   A. Store of value.
   B. Unit of account.
   C. Unit of currency.
   D. Medium of exchange.

2. If Rob deposits $300 in currency into his savings account at Bank of America, _____.
   A. M1 decreases
   B. M1 does not change
   C. M2 increases
   D. M1 and M2 both increase

3. As the central bank, Bank Negara Malaysia (BNM) provides banking services to _____.
   A. the government and the stock market
   B. foreign corporations and determines the exchange rate
   C. banks and regulates financial institutions and markets
   D. banks and determines how much the U.S. government will borrow

4. A bank has RM200 of reserves and RM4,000 of deposits. It is just meeting its required reserves and has no excess reserves. Thus, the required reserve ratio is _____.
   A. 10 percent
   B. 20 percent
   C. 25 percent
   D. 5 percent

5. When the central bank _____ government securities in an open market operation, banks' reserves _____ and therefore lending _____.
   A. sells; increase; increases
   B. buys; increase; increases
   C. sells; decrease; increases
   D. buys; decrease; decreases

6. If the price level rises, there would be _____.
   A. an upward movement along the demand for money curve and the curve does not shift
   B. a downward movement along the demand for money curve and the curve does not shift
   C. a rightward shift of the demand curve for money
   D. a leftward shift of the demand curve for money

Continued...

7. An excess quantity of money supplied will _____.
   A. decrease investment
   B. decrease income
   C. raise interest rates
   D. raise bond prices

Refer to ***Exhibit 1*** for question no.8.

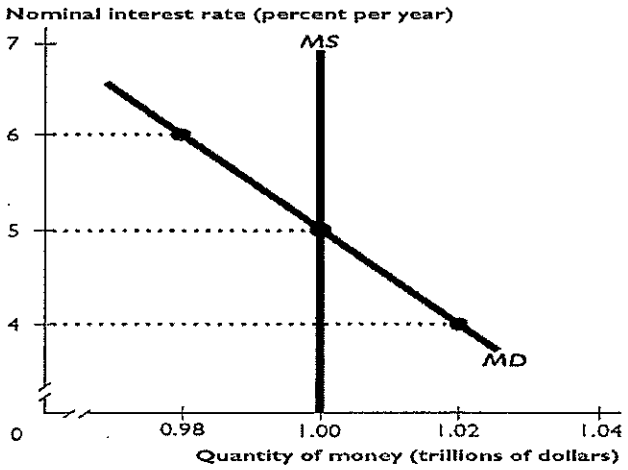

Exhibit 1

8. Refer to ***Exhibit 1***. At which interest rate are people selling bonds and thereby changing the interest rate?
   A. 6 percent
   B. 5 percent
   C. 4 percent
   D. 6 percent and 4 percent

9. Debtors gain and creditors lose when _____.
   A. the anticipated rate of inflation is greater than the actual rate of inflation
   B. the anticipated rate of inflation is less than the actual rate of inflation
   C. the anticipated rate of inflation is the same as the unanticipated rate of inflation
   D. the unanticipated rate of inflation is zero

10. If 2007 is the base year and the inflation rate between 2007 and 2008 is 7.1 percent, the price index in 2008 is _____.
    A. 171
    B. 1.09
    C. 92.9
    D. 107.1

11. By classifying discouraged workers as out of the labour force, the unemployment rate is _____ if they were considered as employed.
    A. higher than
    B. lower than
    C. the same as
    D. any of the above can be correct.

Continued...

12. Which of the following decreases the real interest rate?
    A. an increase in the nominal interest rate, holding the inflation rate constant
    B. an increase in both the nominal interest rate and the inflation rate by the same percentage points
    C. an increase in the inflation rate, holding the nominal interest rate constant
    D. a decrease in both the nominal interest rate and the inflation rate by the same percentage points

13. The _____ in unemployment that occurs during recessions and depressions is called _____ unemployment.
    A. increase; cyclical
    B. increase; frictional
    C. increase; natural
    D. decrease; structural

14. Full employment to occur when _____.
    A. everyone who wants a job has a job
    B. frictional unemployment equals zero
    C. the sum of frictional unemployment and structural unemployment equals zero
    D. the unemployment rate consists of only frictional and structural unemployment

15. According to the short-run Phillips curve, if unemployment is 3.2% and inflation is 1.3%, an increase in the inflation rate might result in which of the following?
    A. an increase in the unemployment rate to 3.4%
    B. a decrease in the unemployment rate to 3.0%
    C. a decrease in the demand for labor in the economy
    D. a return to the original inflation rate of 1.3%

16. Thailand has a comparative advantage in rice and an absolute advantage in cell phones. Indonesia has a comparative advantage in cell phones and an absolute advantage in rice. According to this scenario _____.
    A. Indonesia should export both cell phones and rice
    B. Thailand should import both cell phones and rice
    C. Thailand should export rice and import cell phones
    D. Indonesia should export rice and import cell phones

17. Specialisation and trade allow a country to produce _____ its production possibility frontier and consume _____ it.
    A. outside; outside
    B. outside; inside
    C. outside; on
    D. on; outside

18. The United States imports t-shirts because _____.
    A. foreign nations have a lower opportunity cost in t-shirt production
    B. the United States has a lower opportunity cost in t-shirt production
    C. foreign economies have an absolute advantage in t-shirt production
    D. the United States must import goods and services from other countries so that they can develop economically

Continued...

19. A country exports a good if _____.
    A. it has a high opportunity cost of production
    B. the world price of the good is below the country's no-trade equilibrium price
    C. the world price of the good is above the country's no-trade equilibrium price
    D. the quantity demanded of the good in the country is greater than the quantity supplied at the world price

20. A quota is a _____.
    A. quantitative restriction on an import imposed by the importing country
    B. quantitative restriction on an import imposed by the exporting country
    C. restriction on how much a customer can buy of a scarce good imposed by the seller
    D. tax that is imposed on a good when it crosses an international boundary

21. Suppose you own some German government bonds that pay you interest every year. This interest is entered into which of the balance of payments accounts?
    A. current account
    B. capital account
    C. official settlements account
    D. trade account

22. The United States capital account records _____.
    A. all the purchases and sales of capital goods in the United States
    B. transactions involving trade, interest payments, and net transfers
    C. transactions involving foreign investment in the United States and U.S. investment abroad
    D. imports and exports of capital goods

23. Suppose that the U.S. government acquires more foreign currency. How does this change affect the U.S. balance of payments accounts?
    A. The official settlements account balance is positive.
    B. The official settlements account balance is negative.
    C. The capital account is positive.
    D. The capital account is negative.

24. If Californians increase their purchases of Italian wine, assuming all else remains constant, this will _____ of the United States.
    A. decrease the balance of trade
    B. increase net exports
    C. decrease the trade deficit
    D. decrease the balance of payments

25. When the U.S. official reserves _____, the official settlements account balance becomes negative and when the U.S. official reserves _____, the official settlements account balance becomes positive.
    A. increase; increase
    B. decrease; increase
    C. increase; decrease
    D. decrease; decrease

Continued...

26. In the foreign exchange market, an increase in the U.S. interest rate leads to _____ in the exchange rate because the supply of dollars _____.
    A. rise; increases
    B. rise; decreases
    C. fall; increases
    D. fall; decreases

27. If the exchange rate appreciates, then the _____.
    A. quantity of dollars demanded decreases
    B. quantity of dollars demanded increases
    C. demand for dollars decreases
    D. demand for dollars increases

28. If a country sets a fixed exchange rate that is above the equilibrium exchange rate, how can the country maintain the fixed exchange rate?
    A. by purchasing surplus domestic currency at the fixed exchange rate
    B. by selling surplus domestic currency at the fixed exchange rate
    C. by purchasing surplus domestic currency at the equilibrium exchange rate
    D. by increasing the fixed exchange rate

29. Based on purchasing power parity theory, if the exchange rate is 1.50 U.S. dollars per British pound, then a latte that has a price of $4.00 in San Jose, California, has a price of _____ in London, England.
    A. 4.00 pounds
    B. 6.00 pounds
    C. 2.67 pounds
    D. 0.37 pounds

30. Yesterday, the dollar was trading in the foreign exchange market at 1.10 euros per dollar. Today, the dollar is trading at 1.20 euros per dollar. The dollar has _____ and a possible reason for the change is _____ in the expected future exchange rate.
    A. appreciated; an increase
    B. appreciated; a decrease
    C. depreciated; an increase
    D. depreciated; a decrease

Continued...

SECTION B: STRUCTURED QUESTIONS [70 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the Answer Booklet.

Question 1

Part A

Assume the Bank of Smallville opens its doors to depositors and receives $100,000 in cash deposits.

a) Prepare a balance sheet for Bank of Smallville based on the above information.
(1.5 marks)

b) Assume furthermore that the bank must abide by a 20% required reserve ratio. How much in excess reserves does the bank hold? Could this bank make a loan in the amount of $90,000? Briefly explain.
(3.5 marks)

c) Based on the amount of excess reserves, if the bank makes the loans, show the immediate impact on the Bank of Smallville's balance sheet.
(2 marks)

d) Calculate value of the money multiplier?
(1 mark)

e) How much is the total deposits the banking system if other banks also lend as much as possible?
(2 marks)

Part B

a) What is meant by the term "excess supply of money?" How does the money market resolve this disequilibrium?
(3 marks)

b) Explain with diagrams what happens to the money supply, interest rates, investment spending, GDP, and employment when the central bank makes open market purchases.
(7 marks)

[TOTAL 20 MARKS]

Question 2

Part A

Exhibit 2 shows data collected in the household survey for November 2019. The working-age population, employment, unemployment, and labour force are measured in thousands. Calculate the missing values in ***Exhibit 2***. Show your workings.

Working-age population	
Employment	
Unemployment	
Unemployment rate	5.4%
Labour force	135,113
Labour force participation rate	67.0%

Exhibit 2

(6 marks)

Continued...

Part B

Based on ***Exhibit 3***, answer the following questions.

Year	Price Index	Nominal wages
Year 1	108	$40,000
Year 2	112	$40,800

Exhibit 3

a) Calculate real wages for Year 1 and Year 2.

(3 marks)

b) Calculate the percentage increase in price level between Year 1 and Year 2. What is the percentage increase in nominal wages?

(3 marks)

c) Calculate how much should be the nominal wages a typical worker would receive in Year 2 if that worker would like to maintain her/his Year 1 real wages.

(2 marks)

d) Suppose that Frank loaned Freda $500 in Year 1 and Freda promised to pay him back in Year 2. Both expected that inflation would run at 5%. In these circumstances, who gained?

(1 mark)

[TOTAL 15 MARKS]

Question 3

Part A

Consider two countries, France and the United States, each capable of producing Soyabeans and wine. Assume that for a given number of inputs, the production possibilities for these two countries are as shown in ***Exhibit 4***.

United States (U.S.)		France	
Soybean (tonnes)	Wine (barrels)	Soybean (tonnes)	Wine (barrels)
1200	0	600	0
800	100	400	200
400	200	200	400
0	300	0	600

Exhibit 4

Based on ***Exhibit 4***, answer the following questions.

a) Calculate the opportunity cost of soybean in the U.S. and France.

(2 marks)

b) Calculate the opportunity cost of wine in the U.S. and France.

(2 marks)

c) Which country has the comparative advantage in soybean production? Why?

(1.5 marks)

d) Which country has the comparative advantage in wine production? Why?

(1.5 marks)

Continued...

e) If the U.S. were to trade 1 tonne of soybean with 1.5 barrels of wine with France, do you think France will agree with the terms of trade? Explain.

(2 marks)

Part B

Exhibit 5 shows the U.S. demand and the U.S. supply curves of canned peaches.

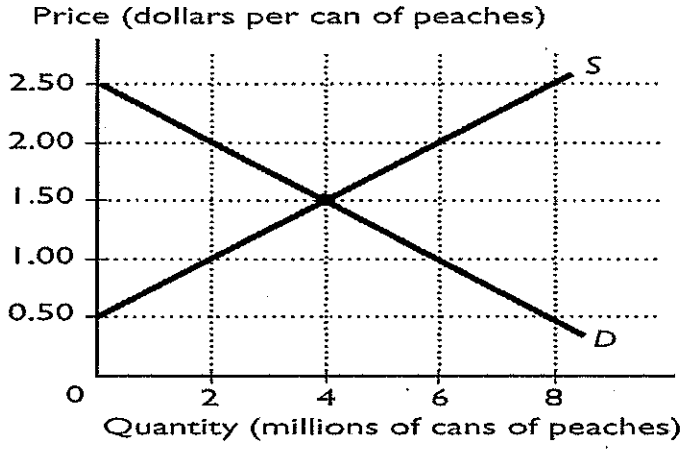

Exhibit 5

Based on ***Exhibit 5***, if the world price of canned peaches is $1 per can and the United States engages in trade,

a) calculate consumer surplus before and after trade. Calculate producer surplus before and after trade.

(4 marks)

b) determine who wins and losses as a result of the trade. Does the United States better off after trade? Briefly explain.

(2 marks)

[TOTAL 15 MARKS]

Question 4

Part A

a) Draw and carefully label a diagram that shows demand for dollars, supply of dollars, and equilibrium exchange rate of dollars. Assume that the price of dollar is in terms of ringgit Malaysia (RM).

(3 marks)

b) Based on (a), explain what would happen as the price of dollar falls.

(2 marks)

c) Explain how an increase in incomes in the United States will affect the equilibrium and value of dollar?

(2 marks)

Continued...

d) Suppose that the price of a Whooper burger is $3 in the United States and RM10 in Malaysia. Assume that the exchange rate between USD and RM is $1 = RM4.

i. Calculate how much (in RM) a Whooper burger would cost a Malaysian tourist in the United States. Is this more or less expensive than the price in Malaysia?

(1.5 marks)

ii. Calculate how much (in dollars) a Whooper burger would cost an American tourist in Malaysia. Is this more or less expensive than the price in the United States?

(1.5 marks)

Part B

Assume ***Exhibit 6*** represents the U.K. balance of payments.

Items	£ billion
Merchandise exports	660
Foreign investment in the U.K.	350
Export of services	320
Merchandise imports	280
Income for foreign assets in the U.K	70
Import of services	480
U.K investment abroad	270
Net unilateral transfer abroad	160
Errors and omission	-10
Income from U.K assets abroad	65

Exhibit 6

Based on ***Exhibit 6***, calculate the U.K.

a) merchandise trade balance.

(1.5 marks)

b) current account balance.

(3.5 marks)

c) capital account balance.

(1.5 marks)

d) net change in official reserves. Are the U.K. official reserves increasing or decreasing?

(3.5 marks)

[TOTAL 20 MARKS]

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